

## Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ADP-00 SCEM-02 SS-15 L-03 NSC-10 PRS-01

CIAE-00 INR-10 NSAE-00 RSC-01 EA-11 INT-08 SIL-01

LAB-06 XMB-07 FMC-04 CG-00 OPIC-12 EUR-25 RSR-01

CIEP-02 OMB-01 STR-08 CEA-02 /158 W

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R 132100Z JUL 73

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 540

DEPARTMENT OF COMMERCE

DEPARTMENT OF TREASURY

FEDERAL POWER COMMISSION

CONFIDENTIAL CARACAS 6069

E.O. 11652: GDS

TAGS: BPRO ENRG

SUBJ: IMPENDING DEVELOPMENT OF \$325 MILLION LNG

PLANT AT MARACAIBO.

SUMMARY: AMBASSADOR RECEIVED DELEGATION OF SENIOR VICE PRESIDENTS OF COLUMBIA GAS, WHO ARE KEENLY INTERESTED IN FIRM POSITION OF USG ON LANDED PRICE OF LNG FROM WESTERN VENEZUELA. BIDS WILL BE ISSUED IN NEXT SIX WEEKS FOR CONSTRUCTION OF PLANT, WITH FOLLOW-ON OF BIDS FOR A TANKER FLEET. EXPECT THAT, FOR POLITICAL CONSIDERATIONS, ANNOUNCEMENT OF MARACAIBO LNG PLANT WILL BE MADE BEFORE DECEMBER ELECTIONS. END SUMMARY

1. I RECEIVED A VISIT THIS MORNING FROM THE FOLLOWING SENIOR VICE PRESIDENTS OF THE COLUMBIA GAS SYSTEM: SY ORLAVSKY, RICHARD ROSAN, AND JOHN CORNELL. THEY REPORTED ON CONVERSATIONS YESTERDAY WITH THE MINISTER OF MINES AND HYDROCARBONS AND THE PRESIDENT OF CVP. FROM THESE CONVERSATIONS, IT DEVELOPED THAT THE GOVERNMENT OF VENEZUELA HAS ALREADY

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CONTRACTED WITH A U.S. MIDWESTERN ENGINEERING FIRM TO DRAW

UP SPECIFICATIONS FOR AN LNG PLANT AT MARACAIBO WHICH WOULD HANDLE SOMETHING OVER 600 MILLION CUBIC FEET OF GAS A DAY WHICH IS NOW BEING FLARED. WITHIN NEXT SIX WEEKS CALLS FOR BIDS WILL GO OUT TO AT LEAST FOUR AMERICAN ENGINEERING FIRMS, INCLUDING BECHTEL, AND ONE FOREIGN, FOR CONSTRUCTION OF SUCH AN LNG PLANT ACCORDING TO THE SPECIFICATIONS NOW BEING DEVELOPED BY THE U.S. CONSULTING ENGINEERING COMPANY. ESTIMATED COST WOULD BE \$325 MILLION. HOPEFULLY, CONTRACT AWARD WOULD BE MADE BEFORE END OF THE YEAR.

2. AT THIS POINT I INFORMED COLUMBIA GAS PEOPLE THAT I THOUGHT THIS WAS HIGHLY PROBABLE BECAUSE PRESIDENT CALDERA AND COPEI PARTY WOULD LIKE TO GET UTMOST MILEAGE OUT OF AN ANNOUNCEMENT OF A NEW INDUSTRY IN THE STATE OF ZULIA, WHICH IS BEING HOTLY CONTESTED IN THE PRESIDENTIAL ELECTIONS BETWEEN AD AND COPEI.

3. COLUMBIA GAS VICE PRESIDENTS SAID THAT IT IS CLEAR THAT CVP INTENDED TO RUN THE TRANSPORTATION END OF THE MARACAIBO LNG PRODUCTION WITH INDICATION THAT THEIR PREFERENCE WOULD BE FOR VENEZUELAN FLAG VESSELS, ALTHOUGH THERE WAS A POSSIBILITY, DEPENDING ON FINANCIAL ARRANGEMENTS, FOR AT LEAST ONE OR TWO U.S. FLAG LNG TANKERS SIMILAR TO THOSE NOW BEING BUILT FOR EL PASO NATURAL GAS AT PASCAGULA AND AT NEWPORT NEWS.

4. I POINTED OUT TO MY INTERLOCUTORS THAT THERE SEEMED TO ME TO BE GREAT OPPORTUNITIES FOR U.S. INDUSTRY, LABOR, AND GOVERNMENT IN ASSISTING VENEZUELA TO DEVELOP AN LNG INDUSTRY IN WESTERN VENEZUELA, TO SAY NOTHING OF THE U.S. CONSUMER WHO BADLY NEEDS GAS. I VERY MUCH HOPED THAT CONTRACTS FOR THE LNG PLANT WOULD GO TO AN AMERICAN COMPANY AND FELT THAT MY FRIEND HENRY KEARNS, PRESIDENT OF EXIMBANK, WOULD BE INTERESTED IN AT LEAST PART OF THE FINANCING OF NOT ONLY LNG PLANT BUT OF TANKERS, IF IN FACT VENEZUELA OPTED FOR A NATIONAL FLAG FLEET. MY OWN PREFERENCE WOULD OF COURSE BE FOR U.S. FLAG CARRIERS, PROBABLY FINANCED UNDER MARAD AUSPICES; BUT EITHER WAY, EXIMBANK OR MARAD, THE SHIPS AT LEAST SHOULD BE BUILT IN THE UNITED STATES.

5. MAIN PROBLEM FACED BY COLUMBIA GAS IS TO BE ABLE TO GIVE  
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FIRM ASSURANCES TO GOV AS TO WHAT PRICE WOULD BE APPROVED BY U.S. FEDERAL POWER COMMISSION. THEY REPRESENTED MINISTER OF MINES PEREZ LA SALVIA AS SAYING YESTERDAY THAT IT WAS ALMOST IMPOSSIBLE TO PIN DOWN U.S. GOVERNMENT ON SPECIFICS OF PETROLEUM POLICY AND THAT IT WAS A MYSTERY TO HIM AS TO HOW IN FACT GAS PRICES WOULD BE FIXED. HOWEVER, DESPITE THIS DISCLAIMER ON PART OF THE MINISTER, COLUMBIA GAS PEOPLE HAD IMPRESSION THAT CVP CONTEMPLATED

A LAID-DOWN COST OF MARACAIBO LNG AT SHIP'S RAIL UNITED STATES OF BETWEEN 95 CENTS AND \$1.10 PER THOUSAND. THEY SAID WELLHEAD PRICE WOULD BE AROUND FORTY CENTS; LIQUEFACTION, 35 CENTS; TRANSPORTATION, 17 CENTS.

6. COLUMBIA GAS VICEPRESIDENTS SAID THAT THEY HOPED A USG POLICY COULD RAPIDLY BE DEVELOPED ON QUESTION OF PRICE BECAUSE THEY FEAR THAT IF US DOES NOT TAKE ADVANTAGE OF A PRESENT OPPORTUNITY, FOREIGN COMPETITORS WILL. THEY CITED FACT THAT, IN ADDITION TO OTHER U.S. COMPANIES, ONLY TWO WEEKS AGO A JAPANESE DELEGATION WAS IN VENEZUELA OFFERING TO BUY ALL LNG THIS COUNTRY COULD PRODUCE; AND ADDED THAT BOTH GERMANS AND ITALIANS, AS WELL AS FRENCH, HAD INDICATED INTEREST.

7. QUITE APART FROM WHAT U.S. COMPANIES ARE EVENTUALLY INVOLVED IN DEVELOPMENT OF VENEZUELAN NATURAL GAS RESOURCES, IT SEEMS TO ME THAT THERE ARE AT PRESENT PERHAPS UNIQUE OPPORTUNITIES FOR U.S. EXPORT OF MACHINERY AND SHIPS AS WELL AS A REAL OPPORTUNITY TO PIN DOWN AT LEAST FOR 20 YEARS A SECURE, IF NOT HUGE, SOURCE OF SUPPLY OF NATURAL GAS. AS SEEN FROM HERE, ONE OF THE KEY ELEMENTS IN THE PICTURE WILL BE ATTITUDE OF FEDERAL POWER COMMISSION AS TO PRICE.

8. I SHOULD APPRECIATE DEPARTMENT PASSING THIS TELEGRAM TO MY GOOD FRIENDS JOHN NASSIKAS, CHAIRMAN OF FPC, DEPUTY TREASURY SECRETARY SIMON, AND EXIMBANK PRESIDENT HENRY KEARNS. COMMERCE PLEASE COPY.

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